

Message Text

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ACTION ARA-14

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FOR ARA/DAS ARELLANO

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E.O. 11652: N/A
TAGS: ECRE BENC VE
SUBJECT: ATKINSON COMPANY PROBLEMS IN VENEZUELA

REFS: (A) STATE 78067, (B) 77 CARACAS 12307
(C) 77 CARACAS 11746

1. EMBASSY SURPRISED THAT GUY F. ATKINSON MADE STATEMENTS DESCRIBED REFTEL A, INCLUDING THREAT TO DELAY OR STOP WORK ON TURIMIQUIRE PROJECT. ALONG WITH OCEANIC CONTRACTORS, INC. OF NEW ORLEANS, LA (A SUBSIDIARY OF J. RAY MCDERMOTT & CO.), ATKINSON IS CAUGHT UP IN PROBLEM ARISING FROM INOS' MALADROIT FINANCIAL ADMINISTRATION COMPOUNDED BY POLITICAL PRESSURE TO GET MOVING ON A LARGE NUMBER OF WATER SUPPLY PROJECTS. IN MANY CASES INOS' FORMER PRESIDENT WENT CONSIDERABLY BEYOND HIS LEGAL AND BUDGETARY AUTHORITY IN CONTRACTING FOR CIVIL WORKS. SITUATION REACHED A CLIMAX LATE LAST YEAR WITH INOS' FALLING INTO SERIOUS AND HEAVIER THAN USUAL ARREARAGES ON A LARGE NUMBER OF CONTRACTS. IN RESPONSE TO PRESSURE FROM PRIVATE SECTOR ORGANIZATIONS, THE GOVERNMENT HAD TO REQUEST BORROWING

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AUTHORITY IN THE AMOUNT OF SIX BILLION, REPEAT, SIX BILLION BOLIVARS TO FINANCE INOS AND MINISTRY OF TRANSPORT AND COMMUNICATIONS CONSTRUCTION PROJECTS ALREADY UNDERWAY. SPECIAL AUDITING OPERATION BY THE CONTRALORIA HAD TO BE INSTALLED IN INOS' OFFICES. SEE, FOR INSTANCE, REFTELS B AND C.

2. THE NATIONAL CONGRESS PASSED LEGISLATION IN DECEMBER

AUTHORIZING THE NECESSARY ADDITIONAL BORROWINGS AND THE GOV SIGNED A \$1.2 BILLION LOAN AGREEMENT ON FEBRUARY 2 IN LONDON (CARACAS 1175, CARACAS 1818). THIS \$1.2 BILLION IS EARMARKED IN PART FOR INOS WATER SUPPLY PROJECTS. MONIES ARE NOW IN PROCESS OF BEING DRAWN DOWN BY GOV AND FUNDS WILL BE TRANSFERRED TO INOS THRU INTERMEDIATE FINANCIAL INSTITUTIONS BY MEANS OF ADDITIONAL CREDITS APPROVED BY CONGRESS (REF C) AS SOON AS DRAWDOWN PROCESS COMPLETE. DRAWDOWN PROCESS EXPECTED TO BE COMPLETED WITHIN 60 DAYS OF SIGNING, OR APRIL 3, 1978. EMBASSY UNDERSTANDS THAT FUNDS HAVE BEEN FLOWING TO INOS TO PAY CONTRACTORS (INCLUDING ATKINSON, SEE PARA 4 BELOW) VIA BANCO INDUSTRIAL. GIVEN PROCESS DESCRIBED ABOVE THESE FUNDS WOULD NOT BE THOSE BORROWED UNDER DECEMBER AUTHORIZAION. HOWEVER, IT APPEARS REASONABLE TO ASSUEM THAT BORROWED FUNDS COULD BE USED BY INOS, ONCE CONGRESSIONAL APPROVAL IS SECURED, TO REPAY SUMS ADVANCED TO THAT INSTITUTION BY BANCO INDUSTRIAL.

3. THE SITUATION DESCRIBED BY ATKINSON OFFICIALS IS ESSENTIALLY THE SAME AS THAT WHICH WAS DESCRIBED TO EMBASSY OFFICERS BY ATKINSON'S TREASURER MR J.J. AGRESTI, IN MID-FEBRUARY. AS A RESULT OF THE ATKINSON COMPLAINT AS WELL AS ONE FROM OCEANIC CONTRACTORS, EMBOFF DID DISCUSS MATTER THEN WITH THE VICE MINISTER OF ENVIORNMENT AND RENEWALBE RESOURCES, THE MINISTRY TO WHICH INOS IS RESPONSIBLE. THE AMBASSADOR ISSUED INSTRUCTIONS TO E/C COUNSELOR TO VOICE CONCERN TO MINISTER GABALDON OF SAME MINISTRY, CONTINGENT UPON AGRESTI LIMITED OFFICIAL USE

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CLEARING THIS CTION WITH ATKINSON'S VENEZUELAN PARTNERS. AGRESTI DEPARTED VENEZUELA WITHOUT GIVING EMBASSY FURTHER INSTRUCTIONS. FOR THIS REASON AND BECAUSE IT APPEARED THAT INOS HAD RESUMED PAYMENTS ON A SCALE AND WITH DELAYS APPROACHING NORMALITY, EMBASSY TOOK NO FURTHER ACTION.

4. ON MARCH 7, MR JOHN SNELLING, ATKINSON'S MANAGER ON THE TURIMIQUIRE PROJECT TOLD EMBOFF THAT PRESSURE HAD BEEN BROUGHT TO BEAR ON INOS WHICH RESULTED IN A CONSIDERABLE ALLEVIATION OF PAYMENTS PROBLEM. ON MARCH 22, VICE PRESIDENT RICHARD F. BYERS, CALLED ON COMATT AND ALSO REPORTED THAT INOS' PAYMENT RECORD HAD IMPROVED AND THAT WORK WAS CONTINUING ONTHE PROJECT. HIS MAIN SOURCE OF CONCERN THEN WAS THE LACK OF AN ESSENTIAL DECISION ON THE SITE OF QUARRY FOR ROCK FILL.

5. IN LIGHT OF ABOVE, REF A, COMES AS A SURPRISE. EMBASSY WILL BE PLEASED TO MAKE APPROACH ON BEHALF OF ATKINSON, BUT PREFERS TO DO SO ONLY AFTER TOUCHING BASE WITH LOCAL PARTNERS, AS HEAVY-HANDED APPROACH AT THIS TIME COULD WELL BE COUNTER-PRODUCTIVE. AS MENTIONED IN PARA FOUR OF REF A, ATKINSON DID DISPLAY CONSIDERABLE NAIVETE IN NOT INCLUDING INTEREST COSTS ON DELAYED PAYMENTS IN ITS BID PRICE. EMBASSY BELIEVES THREAT

TO DELAY OR CLOSE DOWN PROJECT WOULD NOT
SERVE ATKINSON'S PURPOSES.
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